

SOLANO COUNTY ASSESSMENT PRACTICES SURVEY

MARCH 2002

CALIFORNIA STATE BOARD OF EQUALIZATION

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March 29, 2002

TO COUNTY ASSESSORS:

SOLANO COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2002/026

A copy of the Solano County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Robert Blechschmidt, Solano County Assessor-Recorder, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response and the BOE's comments regarding the response, constitutes the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Solano County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County Property Tax Division during January and February 2001. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Blechschmidt and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the enormous impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Solano County Assessor's Office.

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes increased the number of recommendations in the survey reports.

The assessor is required to file with the Solano County Board of Supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, the Solano County Grand Jury, and the Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Robert Blechschmidt, Solano County Assessor-Recorder,¹ elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

¹ This report covers only the assessment functions of his office.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type.

In addition, Revenue and Taxation Code section 75.60² requires the BOE to certify whether the county's assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample pursuant to Government Code section 15640(c), or by determining through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Solano County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Solano County with information relevant to its property tax assessment program. Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether significant assessment problems exist, as defined by rule 371.³

This survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on our analysis that indicates statutory violations, under- or over-assessments, or unacceptable appraisal practices may occur in specific areas.

An assessment practices survey is not an audit of the assessor's entire operation. We did not examine internal fiscal controls or the internal management of the assessor's office outside those areas related to assessment.

² All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

³ All rule references are to Title 18, Public Revenues, California Code of Regulations.

EXECUTIVE SUMMARY

This report presents several recommendations for improvement, but it also notes those program elements that are unique or particularly effective. It highlights areas of improvement since our last assessment practices survey and acknowledges the implementation of previous recommendations.

- In our last survey we made 14 recommendations. The assessor fully implemented seven recommendations and partially implemented two recommendations. The assessor did not implement three of our recommendations. Two recommendations no longer apply.
- The assessor's budget for 2000-2001 was \$3,181,556, which funded 40 positions.
- The secured and unsecured 1999 assessment roll totaled approximately \$21.08 billion, and over 133,000 roll units. For the 2000 assessment roll, gross secured assessments increased to \$23,142,220,781, while gross unsecured assessments increased to \$966,680,913.
- The assessor possesses the BOE-issued appraiser's certificate required by Government Code section 24002.5, and each of the assessor's appraisers possesses the BOE-issued appraiser's certificate required by section 670.
- We recommend the assessor obtain fire reports from fire departments on a regular basis to improve discovery of property eligible for disaster relief. We also recommend that the assessor grant disaster relief only upon the submission of a timely application.
- We found no problems in the assessor's assessment appeals program.
- The assessor has an effective program for the discovery and annual review of real properties experiencing declines in value.
- Historical properties and tenant improvements are assessed correctly.
- The assessor fails to cite the caption required by statute when enrolling escape assessments.
- Although Solano County has a \$5,000 low-value property exemption, the assessor fails to apply the exemption to some manufactured homes.
- We make three recommendations regarding change in ownership. First, we repeat our prior recommendation that the assessor apply the statutory penalties for the failure to file a *Change in Ownership Statement*. Second, we recommend the assessor investigate changes in control reported by BOE's Legal Entity Ownership Program. The last recommendation concerns the information provided on the transfer database.

- Two recommendations address the assessment of new construction. We recommend that the assessor improve documentation of new construction assessments and that his staff enter all building permit data on the appraisal records.
- Taxable possessory interests provide the basis for three recommendations. First, we recommend the assessor obtain the lease agreements creating possessory interests. Second, we recommend the assessor revise his possessory interest valuation policies and procedures. Our last recommendation concerns an apparent calculation error in the computer program used to value possessory interests.
- We recommend the assessor update the section of his policies and procedures manual that addresses the assessment of taxable government-owned properties. In addition, we found several Section 11 properties lacking base year values. Those values are required to perform the three-way value comparison mandated by the California Supreme Court in *City and County of San Francisco v. County of San Mateo* (1995) 10 Cal.4th 554.
- When valuing private water companies, we recommend the assessor consider the income approach as a valid indicator of value.
- The assessor failed to complete all of the mandatory audits required by section 469. In addition, he failed to include organizations receiving the welfare exemption in his mandatory audit program.
- The assessor inappropriately employs minimum valuation factors.
- The assessor uses the BOE-recommended computer valuation tables.
- Two recommendations address the assessment of manufactured homes: first, the assessor should classify manufactured homes on the secured roll as personal property; and second, the assessor should undertake periodic decline-in-value reviews.
- Despite the problems noted above, we found that most properties and property types are assessed correctly.
- We found no significant assessment problems as defined in rule 371. Accordingly, pursuant to section 75.60, Solano County continues to be eligible for recovery of costs associated with administering supplemental assessments.

Here is a list of formal recommendations contained in this report, arranged in the order they appear in the text.

RECOMMENDATION 1: Obtain fire reports from local fire departments to discover property damaged or destroyed by a misfortune or calamity.12

RECOMMENDATION 2:	Process disaster relief claims only when the property owner submits a timely application pursuant to section 170(d).	13
RECOMMENDATION 3:	Cite the caption required by section 533 when enrolling escape assessments.	13
RECOMMENDATION 4:	Apply the low-value property exemption uniformly to all qualifying properties.	14
RECOMMENDATION 5:	Apply the <i>Change in Ownership Statement</i> nonfiling penalty required by section 480.	16
RECOMMENDATION 6:	Properly investigate changes in control listed on BOE's LEOP reports.	17
RECOMMENDATION 7:	Include the name of the transferee and the transfer date on the transfer database as required by section 408.1.	17
RECOMMENDATION 8:	Delete sales prices reported on <i>Change in Ownership Statements</i> from the transfer database.	18
RECOMMENDATION 9:	Record all building permits on assessment records.	18
RECOMMENDATION 10:	Document new construction assessments on appraisal records.	19
RECOMMENDATION 11:	Obtain copies of lease agreements that create taxable possessory interests.	20
RECOMMENDATION 12:	Reappraise possessory interests upon renewal.	21
RECOMMENDATION 13:	Revise the written procedures for valuing possessory interests.	21
RECOMMENDATION 14:	Revise the computer program used to calculate the assessed values of possessory interests.	21
RECOMMENDATION 15:	Revise the written procedures for valuing taxable government-owned property.	22
RECOMMENDATION 16:	Establish base year values for all taxable government-owned property.	22
RECOMMENDATION 17:	When valuing private water companies, consider the income, reproduction cost, and replacement cost approaches to value.	23
RECOMMENDATION 18:	Bring the mandatory audit program to current status.	25

RECOMMENDATION 19:	Include organizations receiving the welfare exemption in the mandatory audit program.....	26
RECOMMENDATION 20:	Discontinue using arbitrary minimum valuation factors.	26
RECOMMENDATION 21:	Classify manufactured homes as personal property.	28
RECOMMENDATION 22:	Review manufactured home assessments for declines in value.	29

RESULTS OF THE 1997 SURVEY

Policy and Procedures

We recommended the assessor assign a high-level appraiser the duties of standards and quality control. By implementing new quality control policies and procedures, the assessor has addressed the concerns raised by our recommendation.

California Land Conservation Act Properties

We made a two-part recommendation addressing the assessment of property restricted by California Land Conservation Act (CLCA) contracts. The first part addressed the valuation of certain nonliving improvements. The second part recommended that the assessor correct an error in the computer program used to value CLCA properties. The assessor fully implemented the recommendation.

Change in Ownership

We recommended that the assessor increase his usage of the *Change in Ownership Statement* and that he apply the failure to file penalties required by statute. Although the assessor has increased his usage of the *Change in Ownership Statement*, he still fails to apply the penalties required by section 482.

In addition, we recommended the assessor document changes in ownership in audit narratives and that his audit staff share that information with the assessor's real property division. The assessor has fully implemented that recommendation.

Manufactured Homes

We made a three-part recommendation addressing the assessment of manufactured homes. We recommended the assessor (1) classify manufactured homes on the secured roll as personal property, (2) review manufactured homes for declines in value, and (3) adjust sales prices for park and location influences. We found that the assessor has implemented only the last part of this recommendation.

Assessment Roll Corrections

We recommended the assessor include the caption required by section 533 on all applicable escape assessments. The assessor did not implement this recommendation.

In addition, we recommended the assessor follow the requirements of section 533 when enrolling audit results; we believed the assessor was incorrectly offsetting overassessments with underassessments. The failure to comply with section 533 occurred in the county auditor's office—not the assessor's office. Therefore, we do not repeat that recommendation.

Mandatory Audits

We made three recommendations regarding mandatory audits. We recommended the assessor (1) develop and maintain an audit log to monitor and evaluate the audit program, (2) ensure all mandatory audits are computer-identified, and (3) include welfare-exempt organizations in the mandatory audit program.

We found that the assessor now tracks the completion of mandatory audits using an audit log and mandatory audit accounts are now computer-identified. We repeat the recommendation that the assessor include welfare-exempt organizations in his mandatory audit program.

Business Property Valuation

Three recommendations addressed business property statement processing and valuation. We recommended the assessor (1) screen property statements more closely for proper signatures on property statements filed on behalf of corporations, (2) properly classify fixed machinery and structure items on the assessment roll, and (3) implement a positive response system to ensure coordination between the business property and real property divisions.

We found that the assessor still fails to screen business property statements for proper signatures. The assessor implemented the other two recommendations.

Tenant Improvements

We recommended that the assessor revise his procedures for assessing tenant improvements. We found that the assessor implemented this recommendation.

OVERVIEW OF THE SOLANO COUNTY ASSESSOR'S OFFICE

Assessment Workload

For the 2000 assessment roll, the assessor processed a real property workload consisting of approximately 12,845 transfers, 1,443 new construction events, and 28,194 other assessment events (California Land Conservation Act, Timberland Production Zone, taxable government-owned properties, parent-child exclusions, parcel splits, decline-in-value reviews, disaster relief claims, etc.). The assessor has a business property workload that included processing of approximately 7,350 unsecured business property accounts.

Assessment Roll by Property Type

The following chart displays pertinent information from the 1999 assessment roll.

<u>Property Type</u>	<u>Number of Assessments</u>	
	<u>in County</u>	<u>Enrolled Values</u>
Residential	107,928	
Commercial	3,590	
Industrial	1,536	
Rural	3,548	
Miscellaneous (including manufactured homes)	7,890	
Total Secured Roll	124,492	\$20,218,866,977
Total Unsecured Roll		
(personal property except manufactured homes)	8,840	869,732,148
Total Roll	133,332	\$21,088,599,125

NOTE: Assessed values by property type were unavailable.

For the 2000 assessment roll, gross secured assessments increased to \$23,142,220,781 and the gross unsecured assessments increased to \$966,680,913.

Budget

The assessor's budget has been recently augmented by funds from the State-County Property Tax Administration Loan Program. The budget for each of the last three years is as follows:

<u>Fiscal Year</u>	<u>Total Budget</u>
1998-1999	\$3,180,520
1999-2000	\$3,092,642
2000-2001	\$3,181,556

Staffing

Since our last survey, the assessor's staffing levels have remained largely unchanged. Current staffing is as follows:

<u>Position</u>	<u>Staffing Level</u>
Assessor-Recorder	1
Chief Deputy Assessor-Recorder, Administration	1
Chief Deputy Assessor-Recorder, Valuation	1
Real Property Appraisers	16
Business Property Auditor-Appraisers	6
Cadastral Draftspersons	4
Clerical Support	<u>11</u>
Total	40

The Chief Deputy Assessor-Recorder, Valuation, manages both the real property and business property divisions. The real property division is divided into two crews, each headed by a supervisor. Four senior specialist appraisers handle specific property types, such as manufactured homes and commercial/industrial properties. The business property division consists of a supervising auditor-appraiser, a senior auditor-appraiser, three auditor-appraisers, and one entry level auditor-appraiser with temporary certification. The clerical operations manager and 10 assessment clerks support both the real property and business property divisions. There is also a four-person cadastral mapping section, including a supervising cadastral drafting technician.

ADMINISTRATION

This portion of the survey report focuses on the administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. We examined the assessor's use of BOE-prescribed assessment forms, certification of appraisal staff, disaster relief, assessment roll corrections, low-value property exemption, supplemental assessments, the county's participation in the State-County Property Tax Administration Loan Program, and the preparation and presentation of assessment appeals.

BOE-Prescribed Assessment Forms

Section 15606(d) of the Government Code requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. To meet that statutory obligation, the BOE annually mails three checklists of prescribed forms to all assessors. The three checklists include property statements and in-lieu forms, miscellaneous property tax forms, and exemption claim forms. Assessors must mark the checklists to indicate which forms they will use, will not use, or will rearrange and send for approval. The checklists must be returned to the BOE by the designated deadline. Final prints of all forms used by the assessor are to be submitted to the BOE by a subsequent deadline established by statute.

We reviewed the forms used by assessor during the 2000 assessment year and found the following:

- Of the 70 BOE-prescribed forms, the assessor uses 67.
- The assessor uses only prototype forms—none are rearranged.
- The Checklist of Board-Prescribed Property Statements and In Lieu Tax Forms were submitted timely.
- Two other checklists were submitted late—March 2000. The deadlines were October 15, 1999 for the *Miscellaneous Property Tax Forms* Checklist and December 1, 1999 for the *Exemption Claim Forms* Checklist.
- Final prints for most property statements and in-lieu tax forms were received timely.

Appraiser Certification

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's or advanced appraiser's certificate issued by the BOE. We found that all of the assessor's appraisal staff hold the required appraiser's certificate.

Contract Appraisers

Assessors may employ appraisers on a contract basis when the workload does not justify the hiring of full-time, permanent staff members. However, the requirements of section 670 also apply to contract appraisers. We found that the assessor contracts with an outside appraiser for oil and gas appraisals. After reviewing that appraiser's qualifications, we found that he holds the required certificate issued by the BOE.

Section 674 also requires the assessor to submit outside appraisal contracts for competitive bidding. We found that the assessor received four competitive bids for outside contract appraisal services and was in compliance with section 674.

Disaster Relief

The Revenue and Taxation Code authorizes tax relief to owners of property damaged or destroyed by a calamity or a disaster. Section 170 permits the county board of supervisors to adopt an ordinance authorizing property tax relief on qualifying damaged property. The ordinance may limit relief to property located in an area proclaimed by the Governor to be in a state of disaster, or the board of supervisors may adopt an ordinance that includes any misfortune or calamity. The Solano County Board of Supervisors authorized disaster relief for any misfortune or calamity when it enacted County Ordinance 1106 on June 17, 1980.

RECOMMENDATION 1: Obtain fire reports from local fire departments to discover property damaged or destroyed by a misfortune or calamity.

We found that the assessor does not receive fire reports from the fire protection agencies in Solano County. Although he discovers other disasters through newspaper articles, taxpayer notification, and field investigation, most of the assessor's discovery occurs through building permits issued for repairs and/or demolition following fire damage. This form of discovery can sometimes occur months after the disaster and, by the time the assessor's office contacts the property owner, the six-month statutory deadline for granting disaster relief may have already passed.

Fire reports prepared by fire protection agencies are a valuable resource for discovering damaged or destroyed properties. In addition, these reports offer much needed information about the property damage and help the assessor maintain accurate records. Access to fire reports could result in the discovery of damage that might otherwise go unnoticed. Receiving these reports will permit the assessor to send disaster relief applications to property owners in a timely manner.

We recommend that the assessor obtain fire reports from local fire departments on a regular basis to timely discover property that has been damaged or destroyed.

RECOMMENDATION 2: Process disaster relief claims only when the property owner submits a timely application pursuant to section 170(d).

We reviewed appraisal records for 23 properties experiencing fire damage during 1999 and 2000. In at least three instances, we found that the assessor granted disaster relief claims even though the property owners' applications were received more than six months after the misfortune or calamity. At the time of our survey, section 170(d) did not authorize the assessor to grant disaster relief if the property owner submits an application more than six months after the occurrence of the damage.

We recommend the assessor grant disaster relief claims only upon the submission of a timely application.

Assessment Roll Corrections

Roll corrections occur when the assessor changes assessed values after the assessment roll has been turned over to the county auditor. After the roll is delivered to the auditor, corrections may be made, with a few exceptions, any time within four years of the date of the assessment that is being corrected. Roll changes are authorized for a variety of reasons by sections 531 et seq., 4831, and 4831.5. Most roll corrections result from escaped new construction, clerical errors, or declines in value. The assessor processed 1,552 roll changes during the 2000 assessment year.

Escape Assessments

Upon discovery of property escaping assessment, the assessor must add the escape assessment, and any applicable penalty, to the assessment roll.

RECOMMENDATION 3: Cite the caption required by section 533 when enrolling escape assessments.

When enrolling escape assessments, we found the assessor cites an incomplete caption. The assessor's caption reads: "Escaped assessment pursuant to Sections of the Revenue & Taxation Code stated in Selection."

Section 533 requires the assessor to include a specific caption when enrolling all escape assessments. That section states, in relevant part: "if this is not the roll for the assessment year in which the property escaped assessment, the entry shall be followed with 'Escaped assessment for year 19__ pursuant to Sections ____ of the Revenue and Taxation Code.'"

We recommend the assessor cite the correct caption citing the correct year when enrolling escape assessments.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to exempt all real property with a base year value, and personal property with a full value, so low that, if not exempt, the total taxes would amount to less than the cost of assessing and collecting them. In determining the level of exemption, the board of supervisors must determine the point at which the cost of processing assessments and collecting taxes exceeds the funds collected. The Solano County Board of Supervisors adopted Resolution No. 96-15 authorizing the exemption of all classes of personal and real property with a full value of \$5,000 or less.

RECOMMENDATION 4: Apply the low-value property exemption uniformly to all qualifying properties.

Approximately 12,600 eligible properties on the secured and unsecured assessment rolls receive this exemption. However, during our review of the secured roll, we found that some manufactured homes with values less than \$5,000 were not exempted. Since the Solano County low-value property exemption applies to all classes of real and personal property, regardless of property type, the assessor incorrectly fails to exempt this low value property.

We recommend the assessor uniformly extend the low-value property exemption to all qualifying property, including manufactured homes.

Supplemental Assessments

Section 75 et seq. require the assessor to issue a supplemental assessment when property changes ownership or upon the completion of new construction. The increase or decrease in assessed value is reflected in a prorated assessment (the supplemental roll) that covers the portion of the fiscal year remaining after the date of change in ownership or completion of new construction.

We found that the assessor has an effective supplemental assessment program.

State-County Property Tax Administration Loan Program

Section 95.31 established the State-County Property Tax Administration Loan Program (PTALP). This program provides state-funded loans to eligible counties for the improvement of property tax administration.⁴

If an eligible county elects to participate, the county and the State Department of Finance enter into a written contract, as described in section 95.31. A PTALP loan is considered repaid if the county satisfies agreed-on performance criteria set forth in the contract. As a provision of the contract, a county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTALP funds to supplant the assessor's office's existing funding.

⁴ AB 818, Chapter 914, Statutes of 1995.

For most counties, verification of performance is provided to the State Department of Finance by the county auditor-controller as a provision of the contract.

Solano County participated in the PTALP during calendar years 1996 through 2000. During calendar year 2000, the county borrowed \$469,207. The Solano County Auditor-Controller has certified to the State Department of Finance that the county met the contractual requirements for loan repayment.

The assessor has used PTALP funds to reduce backlogs of mandatory audits, nonmandatory audits, escape assessments, new construction assessments, assessment appeals, and decline-in-value reductions; to conduct field checks; and, to review the assessments of taxable government-owned and CLCA properties. Funds have also been used to purchase new information technology hardware, software, and related staff training, all designed to increase the long-term productivity of the assessor's office.

Assessment Appeals

The assessment appeals function is mandated by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory provisions governing local boards of equalization and assessment appeals boards performing the appeals function. In addition, Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization. Pursuant to that mandate, the BOE adopted rules 301 through 326 regarding assessment appeals.

The following table displays how assessment appeals were resolved during recent assessment years.

Roll Year	Appeals Resolved	Method of Resolution				
		AAB Cases Heard	Scheduled	Stipulations	Withdrawn	Invalid
2000	180	49	30	16	84	1
1999	246	80	5	22	139	0
1998	365	58	0	132	173	2
1997	1006	265	0	238	493	10
1996	1362	277	0	385	699	1

All applications for assessment reductions we reviewed were filed timely, and all appeals have been heard within the two-year time limit, as required by section 1604, unless the applicant had agreed to an extension. The assessment appeal records were found to contain sufficient documentation to support the assessor's value conclusions. We found that the assessor has an effective program for dealing with assessment appeals.

ASSESSMENT OF REAL PROPERTY

Article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value, factored at no more than 2 percent per year for inflation, unless there is a change in ownership or new construction. The 1975 full cash value and subsequent values that result from a change in ownership or new construction are known as base year values.

The assessor's real property assessment program includes (1) revaluation of properties changing ownership, (2) valuation of assessable new construction, (3) annual review of properties having market values below their factored base year values, and (4) annual review of certain properties subject to special assessment provisions.

Change in Ownership

One of the assessor's duties is to identify and value real property that has changed ownership. Section 60 defines a change in ownership as the transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest.

Sections 62 through 69.5 exclude certain transfers from the definition of change in ownership. Exclusions include, but are not limited to, interspousal transfers, qualifying transfers between parents and children, and property acquired as a replacement for property taken by eminent domain.

Most often, the assessor learns of a change in ownership when a deed is recorded at the county recorder's office. The assessor reviews each recorded deed to discover changes in ownership. During our current survey, we reviewed the appraisal records for properties that had changed ownership, as well as the procedures for processing changes in ownership. For the 2000 assessment roll, the assessor processed over 12,800 changes in ownership.

RECOMMENDATION 5: Apply the *Change in Ownership Statement* nonfiling penalty required by section 480.

It is the assessor's policy not to impose a penalty when a property owner fails to file a *Change in Ownership Statement* (COS). The assessor's staff verified that this is the office policy, and we found numerous examples of it.

Section 480 provides that upon a change in ownership, the transferee shall file a signed COS with the county assessor. Section 480(c) provides that a failure to file a COS within 45 days of the date of a written request from the assessor shall result in a penalty. This penalty is either \$100 or 10 percent of the taxes applicable to the new base year value reflecting the change in ownership, whichever is greater, but not to exceed \$2,500.

We recommend the assessor impose the nonfiling penalty required by section 480.

Legal Entity Ownership Program (LEOP)

Section 64(c) provides that a change in control of a legal entity is a change in ownership of all real property owned by that legal entity, as of the date of the change in control. In that situation, the real property owned by the legal entity is subject to reappraisal. The Legal Entity Ownership Program (LEOP) of the BOE's Policy, Planning, and Standards Division assists assessors in the discovery of legal entities that have experienced changes in control.

Each reported change in control is investigated and verified by the LEOP staff. The LEOP unit periodically transmits a list of entities to each county indicating the date of each change in control and the affected parcels within that county. Since our 1997 assessment practices survey, the LEOP unit notified the assessor of changes in control of nine legal entities that affected real property parcels in Solano County.

RECOMMENDATION 6: Properly investigate changes in control listed on BOE's LEOP reports.

We reviewed appraisal records of several properties listed in recent LEOP reports and we found that the assessor failed to properly investigate changes in control listed on those reports. On two occasions the assessor did not reappraise the real property owned by the entities reporting changes in control. On another occasion, the assessor used an incorrect transfer date, resulting in an incorrect base year.

We recommend that the assessor properly investigate changes in control listed on LEOP reports.

Section 408.1 Transfer Lists

Pursuant to section 408.1, the assessor makes a two-year transfer database available to the public on computer terminals located in the County Hall of Records. There is no charge for access to this information. These transfer records are updated quarterly as required by statute. The transfers are listed by property type and then further segregated by city.

RECOMMENDATION 7: Include the name of the transferee and the transfer date on the transfer database as required by section 408.1.

Although the assessor's transfer database contains the assessor's parcel number, the address of the property, the date the sale was recorded, the recording document number, and the consideration paid, it omits the name of the transferee and the transfer date.

Section 408.1(b) sets forth six specific items of information, detailed above, that must be included on the two-year transfer list. We recommend that the assessor provide the information required by section 408.1 on his transfer database.

RECOMMENDATION 8: Delete sales prices reported on *Change in Ownership Statements* from the transfer database.

We found that the assessor's transfer database lists sales prices reported on *Change in Ownership Statements*, even when those sales prices cannot be extracted from public records.

Section 481 provides that information furnished on either a *Preliminary Change in Ownership Report* or a *Change in Ownership Statement* shall be held secret by the assessor, and that these forms are not public documents. Section 408.1(f) provides further that the assessor shall not include information furnished on a *Change in Ownership Statement*—which is not otherwise public information—on the public transfer list.

We recommend that the assessor refrain from revealing sales prices reported on *Change in Ownership Statements* on the transfer database.

New Construction

Section 71 requires the assessor to reappraise newly constructed real property upon the date of completion, or on each lien date while construction is in progress. Assessors discover most new construction activity from building permits issued by various government agencies. Other discovery methods include reviewing business property statements, aerial photographs, news reports, and conducting field inspections.

Building Permits

The assessor's main source for the discovery of assessable new construction is building permits. Eight agencies in Solano County issue building permits: the county and the cities of Benicia, Dixon, Fairfield, Rio Vista, Suisun, Vacaville, and Vallejo. The assessor receives building permits from all of these agencies.

RECOMMENDATION 9: Record all building permits on assessment records.

We found that permits for typically non-reappraisal events, such as a re-roof, replacement of a water heater, or other maintenance and repair items, are culled before reaching the appraisal staff. No records of their issuance are recorded on the appraisal records of the affected parcels. While mechanical, electrical, plumbing, and other permits may appear to represent nonreappraisable events, they may also indicate extensive remodeling.

All construction permit information is useful to an appraiser, whether or not a given permit involves assessable new construction. Appraisers need records of all building permits to make informed judgments about current condition, quality, appeal, and market value of real property.

We recommend the assessor record all building permits on the property records.

Valuation

Section 71 provides that the assessor shall determine a new base year value for the portion of any taxable real property that has been newly constructed. Section 71 and rule 463(5)(d) also provide that the new construction shall be reappraised at its full value. Section 110.1 and rule 2 define "full cash value" as the fair market value on the date the new construction is completed.

RECOMMENDATION 10: Document new construction assessments on appraisal records.

We found several properties where the assessor valued new construction at half of the owners' reported costs, with little or no explanation. For other new construction situations, we found similar improvements assessed at 100 percent of the owners' reported costs.

Rule 6(a) directs the assessor to apply the cost approach when there is a lack of reliable sales or income data. If historical costs form the basis of a valuation but the appraiser enrolls a lesser value, it should be demonstrated on the appraisal record that those historical costs did not represent market value.

By documenting comparisons of historical costs to published cost manuals or using comparable sales information, appraisers can support the assessed values. We recommend the assessor include supporting documentation of new construction assessments on the appraisal records.

Decline in Value

Section 51 requires the assessor, as of the lien date each year, to value taxable real property at the lesser of its factored base year value or its current fair market value (full cash value as defined in section 110). Whenever a property's current market value declines below its factored base year value for any reason, that lower value must be enrolled as the taxable value for the year(s) of the decline. Any value enrolled as a decline in value requires annual review until the property's current market value exceeds the factored base year value. The factored base year value is then restored as the taxable value. Although not required by law to reappraise every property annually, most assessors make concerted efforts to monitor market trends and individual property situations to recognize declines in value.

On the 1997 assessment roll, approximately 36,000 parcels received decline-in-value adjustments because their current market values were less than their factored base year values. As local economic conditions improved, the assessor restored the factored base year values. As of January 2001, the assessor had approximately 13,800 parcels enrolled in decline-in-value status.

We reviewed a number of properties receiving decline-in-value assessments and found that the assessor maintains an effective decline-in-value program.

Valuation of Commercial/Industrial Property

Senior appraisers, each specializing in different types of income-producing properties, are responsible for appraising properties whose market value is expected to exceed \$1,000,000. One of the two supervising appraisers or the Chief Deputy Assessor-Recorder reviews and approves the assessments placed on these high-value properties.

Although the assessor has multiple sources of market information available, assessment records of several high-value properties did not contain any evidence that the assessor conducted a review of the reported sales prices before enrolling those prices as the assessed values. Despite the assessor's contention that all sales prices are reviewed for reasonableness, there was no indication that any units of comparison had been calculated. In addition, some records contained no evidence that the appraisers had considered the income approach to value those properties.

We suggest that the assessor establish guidelines prescribing standard valuation procedures and the minimum acceptable level of documentation for the valuation of major properties.

Taxable Possessory Interests

Section 107 and rule 20(a) define a taxable possessory interest as an interest in real property which exists as a result of possession, exclusive use, or a right to possession or exclusive use of land and/or improvements unaccompanied by ownership of a fee simple or life estate in nontaxable, publicly-owned real property.

The assessment roll contains approximately 1,150 taxable possessory interests; nearly half of those interests are boat slips at the Vallejo Marina. A supervising appraiser is responsible for valuing all possessory interests in Solano County.

Possessory Interest Lease Agreements

To determine whether the uses of government-owned properties are taxable possessory interests, and to properly value those that are, it is often necessary to review lease agreements creating those uses.

RECOMMENDATION 11: Obtain copies of lease agreements that create taxable possessory interests.

Several possessory interest appraisal records that we reviewed did not contain a copy of the current lease. Although the assessor's staff maintains that there are no written agreements for most of the possessory interests, many users are businesses that would require written leases to protect their business interests.

Since the assessor does not have copies of most leases, he must estimate the terms of possession, the contract rents, and the types and amounts of expenses. Copies of current leases will facilitate the proper assessment of possessory interests. We recommend the assessor obtain copies of all possessory interest leases.

Renewals

RECOMMENDATION 12: Reappraise possessory interests upon renewal.

We found that the assessor has neglected to reappraise several taxable possessory interests upon their renewals. Instead, the assessor increased the assessed values of those interests by the annual inflation factor. Section 61(b) provides that the definition of change in ownership includes the creation, renewal, extension, or assignment of a taxable possessory interest. Failing to reappraise those possessory interests results in escape assessments.

We recommend the assessor reappraise taxable possessory interests upon renewal.

Procedures Manual

RECOMMENDATION 13: Revise the written procedures for valuing possessory interests.

We found that the assessor's written policies do not address the change in ownership exclusion described in section 61(b)(2). Page 10-807 of the assessor's *Real Estate Procedure Manual* states "whenever the lease is renewed, sublet or assigned, the interest will be reappraised at its market value."

Section 61(b)(2) provides that a renewal or extension of a possessory interest during the reasonably anticipated term of possession used by the assessor to value the interest does not result in a change in ownership until the end of that anticipated term of possession. Omitting this exclusion from the policies and procedures manual could result in the premature reappraisal of some taxable possessory interests.

We recommend the assessor revise his policies and procedures manual to include a reference to the possessory interest change in ownership exclusion described in section 61(b)(2).

Valuation

RECOMMENDATION 14: Revise the computer program used to calculate the assessed values of possessory interests.

The assessor relies on a computer program to calculate the value of taxable possessory interests using the indirect approach described in rule 25. We found that, due to either a programming error or a misunderstanding of how the taxable value of improvements should be calculated, those calculations are not correct.

One method for calculating a taxable possessory interest's improvement value is to subtract the present worth of that improvement's reversionary value from that improvement's estimated current market value. However, upon reviewing the assessments of several possessory interests, we found that the assessor performed that calculation incorrectly.

We recommend the assessor revise the computer program used to calculate the assessed value of taxable possessory interests.

Taxable Government-Owned Property

Article XIII, section 3(b) of the California Constitution exempts from property taxation any property owned by local governments, except as provided in section 11(a) of the California Constitution. Section 11(a) provides that land, and the improvements thereon, located outside an agency's boundaries, are taxable if the property was subject to taxation at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as "Section 11" properties.

RECOMMENDATION 15: Revise the written procedures for valuing taxable government-owned property.

We found that the assessor's *Real Estate Procedure Manual* instructs appraisers to compute only two value indicators for Section 11 property. In *City and County of San Francisco v. County of San Mateo* (1995) 10 Cal.4th 554, the California Supreme Court held that the limitations of article XIII A of the California Constitution also apply to Section 11 properties. The Court's holding means that such property must be assessed using the lowest of (1) the current fair market value, (2) the Section 11 restricted value (the 1967 taxable value of land multiplied by the factor described in section 11), or (3) the factored base year value.⁵

We recommend the assessor update the portion of the *Real Estate Procedure Manual* that addresses the valuation of Section 11 property.

RECOMMENDATION 16: Establish base year values for all taxable government-owned property.

We found numerous Section 11 properties with no identified base year values. Since the value standard applicable to Section 11 property is the lowest of its (1) current fair market value, (2) Section 11 restricted value, or (3) factored base year value, the assessor must establish a base year value for all Section 11 properties. For a discussion of establishing base year values for Section 11 properties, refer to Letter To Assessors No. 2000/037.

We recommend that the assessor establish base year values for all Section 11 properties.

⁵ Letter To Assessors No. 95/48.

California Land Conservation Act Property

Agricultural preserves are established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965. Property owners in an agricultural preserve may choose to enter into a contract restricting the use of their lands. Lands under contract are valued for property tax purposes on the basis of agricultural income-producing ability, including compatible use income (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current market value, or the factored base year value. Sections 421 through 430.5 prescribe the guidelines for assessing land subject to agricultural preserve contracts.

The county of Solano has approximately 267,000 acres under CLCA contract. A total of 51 parcels are in non-renewal status. We found that the assessor has an effective CLCA assessment program.

Historical Property

The Mills Act provides a specific procedure for the assessment of certain historical properties. Its purpose is to encourage the renovation and maintenance of historical properties by providing a property tax incentive for their owners. Government Code section 50280 provides that the owner of a qualified historical property may enter into a contract with local government to restrict the use of the property in a manner that preserves the property. In return, the owner will receive property tax benefits via valuation pursuant to the methodology prescribed by section 439.2.

Solano County has four parcels assessed under the provisions of the Mills Act. We found that the assessor enrolls the value as prescribed by statute. The appraisal files contain copies of the contracts with the local governments, income data, worksheets, and both the city and county ordinances establishing a historical preservation district and the historical preservation zone. Historical properties in Solano County are assessed correctly.

Water Company Property

Water company property assessed on the local tax roll may be municipal water systems, private water companies regulated or unregulated by the California Public Utilities Commission (CPUC), or mutual water companies. Each type presents different assessment problems.

We obtained lists of all water supply sources annually inspected by the county's Department of Environmental Health, the Drinking Water Field Operations branch of the State Department of Health Services, and the CPUC. Using information from those lists, we reviewed the property assessments of several of the water companies inspected by both the state and county agencies.

RECOMMENDATION 17: When valuing private water companies, consider the income, reproduction cost, and replacement cost approaches to value.

The assessor contracts with the Santa Clara County Assessor's office to annually review the value of the one private water company in Solano County. We found that only historical cost less

depreciation (HCLD) was used to value this property. While HCLD is an important indicator of value for regulated water companies, it should not be the only indicator of value considered during the appraisal process.

Because private water companies are income-producing properties, we believe that an estimate of value by the income approach may provide an important indicator of value, especially for those properties where comparable sales are unavailable. Income data can be obtained from the same CPUC financial report used to develop the HCLD estimate.

In addition, in some cases the reproduction or replacement cost approach should be considered. The application of this approach is discussed in Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights* (December 2000).

We recommend the assessor consider the income, reproduction cost, and replacement cost approaches to value when valuing the one regulated water company in Solano County.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's business property division consists of one supervising auditor-appraiser, one senior auditor-appraiser, three auditor-appraisers, and one assessment clerk. They process annual assessments of 1,182 secured and 7,358 unsecured business property accounts. For the 2000 assessment roll, 3,220 vessels were assessed with a total assessed value of \$52.7 million and five documented vessels were assessed at \$5,400. In addition, there were 164 general aviation aircraft assessed at \$7,600,000, two non-scheduled certificated aircraft assessed at \$115,000, and 29 historical aircraft assessed at \$1,400,000.

Business Property Statement Processing

Section 441 provides that every person owning taxable personal property in excess of \$100,000 must annually file a signed business property statement with the assessor. Every person owning personal property that does not meet the above requirements must, upon request of the assessor, file a signed business property statement. Annual business property statements form the backbone of the personal property assessment program.

We found that the assessor has an effective business property statement processing program.

Audit Program

An audit program is an important function of a business property assessment program. The purpose of an audit is to ensure that taxable property and related information were reported accurately by the taxpayer and were assessed properly by the assessor.

Section 469 and rule 192 require the assessor to audit the books and records of a taxpayer at least once every four years when the taxpayer's locally assessed trade fixtures and tangible personal property have a full value of \$400,000 or more for a period of four consecutive years.

RECOMMENDATION 18: Bring the mandatory audit program to current status.

As of November 2000, we found 341 accounts that required a mandatory audit during the previous four-year period. To meet that workload, the assessor would need to complete an average of 86 mandatory audits each year. Based on our review of the audit assignments submitted by the auditor-appraiser, only 271 mandatory audits were completed over the past four years, leaving 70 mandatory audits not assigned.

The mandatory audit program verifies the reporting on the largest business property accounts and forestalls any potentially large assessment errors. Failing to perform mandatory audits permits potentially large assessment errors to persist from year to year. The further removed the audit is from the year being audited, the more difficult it is to obtain the necessary records.

We recommend the assessor bring the mandatory audit program to current status.

RECOMMENDATION 19: Include organizations receiving the welfare exemption in the mandatory audit program.

We found the assessor fails to audit organizations that meet the mandatory audit criteria of section 469 when those organizations also receive the welfare exemption. Section 469 does not exclude welfare-exempt organizations from its provisions and no such exclusion appears elsewhere in the Revenue and Taxation Code.

We again recommend that the assessor's mandatory audit program include organizations receiving the welfare exemption.

Business Property Valuation

When valuing business personal property, assessors generally use valuation factors that are produced by combining price index factors with percent good factors for machinery and equipment. The BOE has developed annual equipment index factors and percent good factors to assist assessors. These are published in BOE's Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

The business property division computes the assessed value of business personal property using special features of the Solano County Integrated Property System (SCIPS). At the beginning of the appraisal season, valuation factors are entered in the computerized appraisal program.

RECOMMENDATION 20: Discontinue using arbitrary minimum valuation factors.

The assessor currently uses minimum valuation factors of 10 to 40 percent of cost for commercial, industrial, agricultural, and construction equipment. Index factors in AH 581 recognize price changes and the effects of technological progress, and they are intended to reflect the price of a replacement. The percent good factors in AH 581 are intended to reflect the average loss in value suffered by specific types of properties over their expected service lives.

When valuing business property, it is necessary for the auditor-appraisers to analyze individual property items for deviations from the norm. If such deviations exist, it is appropriate to adjust the index or percent good factor to reflect the deviation. Arbitrarily establishing minimum values is not an acceptable appraisal practice and may overvalue certain equipment.

We recommend the assessor discontinue the use of non-Board approved minimum valuation factors.

Computer Valuation

To promote uniformity in appraisal practices and assessed values and to comply with the requirements of section 401.5, the BOE has issued valuation factors for computer equipment. For lien date 2000, the BOE included these factors in AH 581, Table 6. Computer valuation factors are provided for the categories of personal computers (\$25,000 or less), mid-range computers (\$25,000.01 to \$500,000), and mainframe computers (\$500,000.01 or more).

We found that the assessor uses the BOE-recommended valuation factors for computers.

Leased Equipment

One of the responsibilities of the assessor's business property staff is the discovery and assessment of leased equipment. Assesseees are required to report all leased property (taxable property in their possession, but belonging to others) on the annual business property statement. Assesseees are required to provide the type of property, year of acquisition and manufacture, cost to purchase new, description or lease number, and the owner's name and address.

The assessor compares the business property statements of both the lessees and lessors to ensure that all reported leased equipment is assessed. When the lease matures or is terminated, a comparison is made to determine if the equipment will be reported directly by the lessee.

After reviewing selected assessment records of lessors and lessees, we found that leased equipment is being assessed properly.

Aircraft

For the 2000 lien date the assessor enrolled 164 general aviation aircraft assessed at \$7,600,000, 29 historical aircraft assessed at \$1,400,000, and two non-scheduled certificated aircraft assessed at \$115,000.

General Aviation Aircraft

Section 5363 requires the assessor to determine the market value of general aviation aircraft according to standards and guidelines set by the BOE. The BOE has directed assessors to use the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference* as an alternate for aircraft not listed in the *Bluebook*. We found that the assessor uses the recommended *Bluebook* as the primary guide for valuing general aviation aircraft.

Using information from aircraft property statements, the assessor computes the value of general aviation aircraft on computer-generated worksheets. The assessor also reviews information from airport managers and other counties when determining the aircraft values.

We found that the assessor has an effective general aviation aircraft assessment program.

Historical Aircraft

There were 29 historical aircraft in Solano County for the 2000 lien date. Section 220.5 provides that aircraft of historical significance shall be exempt from taxation only if all of the conditions set forth in subsection (b) are met. One of the conditions is that the aircraft is available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year which the exemption is claimed. The assessor requires the claimant to file the BOE-approved claim form timely and verifies the 12 occasions of public display before granting the exemption.

Manufactured Homes

Assessment of manufactured homes differs from the assessment of other types of property in California. Certain manufactured homes have been taxable on local assessment rolls since July 1, 1980. Prior to this date, manufactured homes were subject to license fees paid through the Department of Motor Vehicles. A manufactured home is subject to local property taxes if it was first sold new on or after July 1980, or the owner has requested conversion from vehicle license fees to local property taxes. Most requests for conversion from license fees occur when a manufactured home is sold, since sales or use tax is not due for manufactured homes subject to local assessment. Provided it is their primary residence, conversion also allows the owners to qualify for the homeowners' exemption.

Unless installed on an approved foundation system, manufactured homes must be classified as personal property. However, manufactured homes are treated differently than other personal property. Sections 5800 through 5842 govern how manufactured homes are valued and assessed. Unlike other personal property, manufactured homes are entered on the secured roll with a base year value and are subject to the annual inflation factor. The taxes may be paid in two installments, and manufactured homes are subject to supplemental assessments upon a change in ownership or new construction. The taxable value of a manufactured home is the lesser of its factored base year value or its full cash value on the lien date.

There were approximately 935 manufactured homes on the 2000 assessment roll.

Classification

RECOMMENDATION 21: Classify manufactured homes as personal property.

We found that the assessor classifies manufactured homes as improvements. Section 5801(b)(2) provides that a manufactured home shall not be classified as real property for property taxation purposes.

We recommend the assessor classify manufactured homes as personal property.

Declines in Value

RECOMMENDATION 22: Review manufactured home assessments for declines in value.

We found that the assessor does not review the market values of manufactured homes on a regular basis. Typically, the assessor reviews the assessed values of manufactured homes only upon request of the property owner.

Section 5802 requires the assessor to determine the base year value of a manufactured home on the date the manufactured home is purchased or changes ownership. After the assessor establishes the base year of a manufactured home, section 5813 provides that its taxable value for each succeeding lien date is the lesser of its base year value, compounded annually by the inflation factor, or its market value.

Although the assessor is not required by law to reappraise all properties every year, the assessor should be proactive in discovering situations where properties have declined in value and assessing such properties at the lower of the adjusted base year value or fair market value. As discussed earlier in this report, the assessor has maintained an effective real property decline-in-value program. However, although manufactured homes typically decline in value as they age, the assessor has no program for reviewing these properties and making appropriate adjustments.

We recommend the assessor establish a program to review manufactured homes for declines in value.

Vessels

The 2000 assessment roll contains 3,220 vessels with a total assessed value of \$52.7 million and five documented vessels assessed at \$5,400. The assessor values vessels using reported purchase prices and vessel valuation guides, such as *N.A.D.A.* and *BUC*.

The assessor annually reviews the values for all vessels using either the *N.A.D.A.* or *BUC* valuation guides. We found no problems with the assessor's vessel assessment program.

APPENDICES

A. County Property Tax Division Survey Group

Solano County Assessment Practices Survey

Chief, County Property Tax Division

Charles Knudsen

Assessment Practices Survey Section Manager

Gene Palmer

Principal Property Appraiser

Survey Team Supervisor

Michael Lebeau

Principal Property Appraiser

Survey Team Leader

Carlos Zaragoza

Senior Specialist Property Auditor Appraiser

Survey Team

Glenn Danley

Associate Property Appraiser

Wes Hill

Associate Property Appraiser

Jody Henning

Associate Property Appraiser

Larry Gee

Associate Property Auditor Appraiser

David Barbeiro

Associate Property Auditor Appraiser

Kim Trotto

Junior Property Appraiser

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to ensure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records; Appraisal Data Not Public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code**75.60. Allocation for administration.**

- (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.
- (b) For purposes of this section:
- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
 - (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
 - (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
 - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:
 - (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
 - (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The survey report, the assessor's response, if any, and BOE comments on the assessor's response, if any, constitute the final survey report.

The Solano County Assessor's response begins on the next page. The BOE's comment on the assessor's response follows immediately thereafter.

SOLANO COUNTY ASSESSOR/RECORDER

MONA BIHL
CHIEF DEPUTY
ADMINISTRATION

LARRY CAMIGI
CHIEF DEPUTY
VALUATION

600 TEXAS STREET
FAIRFIELD, CA 94533-6386



ROBERT BLECHSCHMIDT
ASSESSOR/RECORDER

PHONE (707) 421-6200

RECEIVED

JAN 17 2001

County Property Tax Division
State Board of Equalization

January 14, 2001

State Board of Equalization
Property Taxes Department
450 N Street, MIC: 62
Sacramento, CA 94279-0062

Attn: Mr. Charles G. Knudsen, Chief

Dear Mr. Knudsen:

In Accordance with Section 15645 of the California Government Code, I am including herewith the Assessor's Response to the State Board of Equalization's Assessment Practices Survey of Solano County.

We would like to express our sincere appreciation for the professional and considerate manner in which the survey crew conducted itself while surveying the office and interviewing our staff.

I would also like to acknowledge and thank the employee's of the Assessor's Office for their dedication and hard work in providing outstanding service to the citizens of our County.

Sincerely,

Robert P. Blechschmidt
Assessor/Recorder

Attachment

**SOLANO COUNTY RESPONSE
ASSESSMENT PRACTICE SURVEY 12/2001**

Recommendation 1: Obtain fire reports from local fire departments to discover property damaged or destroyed by a misfortune or calamity.

We have contacted the fire departments and are working with them on completing a monthly report.

Recommendation 2: Process disaster relief claims only when the property owner submits a timely application pursuant to section 170(d).

SB 1181 and SB 1184 will change the time limit to 12 months.

Recommendation 3: Cite the caption required by section 533 when enrolling escape assessments.

We cite the escape is for the year at the top of the page- see attached. To quote the exact language would be in error "year 19__" since the century has changed.

Recommendation 4: Apply the low-value property exemption uniformly to all qualifying properties.

The few assessments that existed have been corrected, some had received homeowner's exemption, which cancelled the bill, and the tax collector canceled others that were less than \$20.

Recommendation 5: Apply the change in ownership statement nonfiling penalty required by section 480.

We receive PCORs for approximately 99% of the recorded documents. This procedure is just not cost effective.

Recommendation 6: Properly investigate changes in control listed on BOE's LEOP reports.

Agree. The first example was reappraised at the same value as noted on the appraisal. The second example was reappraised before SBE notified us and the new assessment resulted in a reduction in value and ultimate refund of supplemental taxes.

Recommendation 7: Include the names of the transferor and transferee and the transfer date on the transfer database as required by section 408.1.

Section 408.1 states "if available" the transferor and transferee information is optional and not required.

Recommendation 8: Delete sales prices reported on change in ownership statements from the transfer database.

We are changing our database to reflect the sales prices from reported transfer tax.

Recommendation 9: Record all building permits on assessment records.

We disagree with this type of negative work. Permits for replacing water heaters and roofing are not considered new construction. There is no legal requirement for this type of record keeping. We have a similar process for working recorded documents. Deeds are first reviewed to determine if they transfer ownership. When a document has been determined to require reappraisal it is input into our system, documents not requiring reassessments are not recorded on the record.

Recommendation 10: Document new construction assessments on appraisal records.

We concur.

Recommendation 11: Obtain copies of lease agreements that create possessory interests.

We are currently contacting agencies to obtain copies of leases we do not have.

Recommendation 12: Reappraise possessory interests upon renewal.

Identification of renewed leases is in progress and reappraisal will follow.

Recommendation 13: Revise the written procedures for valuing possessory interests.

We have revised our procedure manual.

Recommendation 14: Revise the computer program used to calculate the assessed values of possessory interests.

The program has been revised and corrections made.

Recommendation 15: Revise the written procedures for valuing taxable government-owned property.

We have updated our procedure manual. We have always used the lowest of the three approaches.

Recommendation 16: Establish base year values for all taxable government-owned property.

We concur.

Recommendation 17: When valuing private water companies, consider the income, reproduction cost, and replacement cost approaches to value.

We concur. There is only one private water company in Solano County.

Recommendation 18: Bring the mandatory audit program to current status.

We agree and are working on the backlog.

Recommendation 19: Include organizations receiving the welfare exemptions in the mandatory audit program.

We find no benefit from auditing tax-exempt non-profit organizations like the YMCA, United Way, etc.

Recommendation 20: Discontinue using arbitrary minimum valuation factors.

We do not use arbitrary minimum valuation factors. The 10 % you questioned is an SBE recommendation for biopharmaceuticals (SBE Letter # 99/54).

The 40% is based on the L.A. County Assessor study for luxury anchor department stores only, as approved by the CAA Bus. Prop. Committee for use by all assessors starting year 2000.

Recommendation 21: Classify manufactured homes as personal property.

We concur.

Recommendation 22: Review manufactured home assessments for declines in value.

We concur.

BOE’S COMMENTS ON ASSESSOR’S RESPONSE

In accordance with the provisions of Government Code section 15645, the Solano County Assessor elected to incorporate his response to the BOE’s findings and recommendations in the published survey report. Section 15645 of the Government Code also allows the BOE to include, in the report, comments regarding the assessor’s response.

RECOMMENDATION 5: Apply the change in ownership statement nonfiling penalty required by section 480.

The assessor responds that the procedure for implementing the nonfiling penalty mandated by section 480 is not cost effective, citing the 99 percent filing rate for Preliminary Change in Ownership Reports (PCOR's).

Change in Ownership Statements are an effective tool for discovering the relevant details of any change in ownership of real property. However, when a property owner fails to respond, that owner denies the assessor of important information necessary to enroll an accurate assessment.

Although the assessor's PCOR response rate is admirable, the nonfiling penalty prescribed by section 480 is mandatory. Whenever the assessor fails to apply the penalty, he fails to fulfill one of his statutory obligations. Therefore, we repeat our recommendation that the assessor apply the change in ownership statement nonfiling penalty prescribed by section 480.

RECOMMENDATION 7: Include the names of the transferor and transferee and the transfer date on the transfer database as required by section 408.1.

The assessor responds that section 408.1 only requires him to list transferor and transferee information when it is available and that it is optional and not required.

Section 408.1(c) provides that the public transfer list shall include, among other items, the transfer date and the names of the transferor and transferee—if those names are available. With regard to the transfer date, section 408.1(c) does not qualify its inclusion based on availability. As for the names of the transferors and transferees, we believe that the assessor has that information readily available. Every deed that the assessor reviews for a change in ownership includes those names. When enrolling such changes in ownership, the assessor must capture that information to determine the proper owners. Consequently, inclusion of that information is not optional.

RECOMMENDATION 20: Discontinue using arbitrary minimum valuation factors.

The assessor responds that he does not use arbitrary minimum valuation factors, citing two examples to dispute our findings: a 10 percent minimum valuation factor for biopharmaceutical equipment, as prescribed by the BOE, and a 40 percent minimum valuation factor for luxury department stores, based on a study by the Los Angeles County Assessor's Office.

We disagree with the assessor. In addition to the two types of property described above, we found numerous other examples of assessor's usage of minimum valuation factors. While the BOE prescribed minimum valuation factors for biopharmaceutical equipment in LTA 99/54, no such findings were made for other classes of equipment. The CAA tables employed by the assessor use AH 581 percent good factors except that they employ arbitrary minimum valuation factors for older equipment. This means that very old equipment that is about to be retired is valued as though it has several years of profitable service left.

There is no question that some older equipment is worth much more than 1 percent of replacement cost new, just as some newer equipment is worth substantially less than the percent good suggested by AH 581. When making appraisals of individual items of equipment, the assessor may use sales data, income data, or any other available evidence to find fair market value.

However, when using a mass appraisal tool such as the tables from AH 581, it is important to use the tables as presented. Use of arbitrary minimum valuation factors may value some equipment correctly but will substantially overvalue most items of older equipment. Accordingly, to avoid overvaluations we recommend the assessor discontinue his use of minimum valuation factors.